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HM Treasury

Competition in banking: improving access to SME credit data

Published 20 December 2013

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1. The consultation process

1.1 The subject of this consultation

The subject of this consultation is increasing access to credit data on small to medium sized enterprises ('SMEs') in order to stimulate competition in the SME lending market.

1.2 Structure of the consultation

- Section 2: Introduction, sets out the background to this work and a high level assessment of the problem.
- Section 3: Increasing access to SME credit data, explains why there is a need for increased access to this data, outlines the deficiencies of the current system, and sets out a range of proposals to increase access to this data. The proposals cover what data the government would like to see shared, how the data should be shared with the Credit Reference Agencies (CRAs), and access to this data including by challenger banks and alternative finance providers.

1.3 Who should read this?

This consultation should be read by those with an interest in SME lending and the provision of credit data: this includes banks, building societies, other providers of finance, Credit Reference Agencies, businesses, trade bodies, and other interested parties.

1.4 Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the Freedom of Information Act 2000 (FOIA).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, among other things, with obligations of confidentiality. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.

2. Introduction

The government is committed to fostering a strong, diverse and competitive banking sector to ensure that UK consumers and the economy can benefit from high quality banking products and services at efficient prices. One of the impacts of the financial crisis has been an increase in the level of concentration in the UK banking market, including the market for SME lending. At present the largest four banks have a market share of SME lending of around 85%. The government believes that such high concentration levels are bad for consumers and business and is determined to see a step change in competition in the UK banking market.

The government has already taken significant steps to address this situation. Interventions have included:

reducing barriers to entry and expansion in the banking market	in July 2012, the Chancellor of the Exchequer asked the Financial Services Authority (FSA) to conduct a Review of Barriers to Entry and Expansion in the banking sector, which resulted in major changes to the capital requirements for new banks, making it easier for them to enter the market and compete
levelling the playing field by removing distortions in the market that favour large, incumbent banks	legislation has been introduced in the Banking Reform Bill to ring-fence banking services and increase banks' capacity to absorb losses. Introducing ring-fencing and measures on loss absorbency are key steps in helping to create the right environment for competition in banking to flourish
creating a new competition-focused regulator for payment systems	to ensure that smaller banks and non-bank providers can get fair access to payments systems, helping drive innovation and choice for consumers. The government has introduced legislation in the Banking Reform Bill to create the new regulator, which it expects to be fully operational by early 2015
making it easier for consumers to move their bank accounts to a provider that meets their needs	through the launch of the new 7 day switching service
improving transparency	through a voluntary agreement with the major lenders to

	publish bank-by-bank lending data across 10,000 postcodes, enabling smaller lenders, both banks and non-banks, to see where lending is low and pursue new business in these areas
creating the right regulatory environment to foster competition	the Financial Conduct Authority (FCA), created through the Financial Services Act 2012, has been given a powerful mandate to promote effective competition in the interests of consumers, and a duty to consider competition in pursuing its consumer protection and market integrity objectives. The government has also introduced legislation in the Banking Reform Bill to further enhance the competition powers of the FCA and to provide the Prudential Regulation Authority (PRA) with an explicit competition objective.

Alongside these interventions, the Chancellor of the Exchequer announced on 19 June 2013 that the OFT would bring forward its market review of small business banking. This work is underway and is focussing on competition in SME banking, including lending to SMEs.

At Budget 2013 the government announced that it would “investigate options for improving access to SME credit data to make it easier for newer lenders to assess applications for loans to smaller businesses”. Since then HM Treasury has been working with the Bank of England, the Office of Fair Trading, the Financial Conduct Authority, the Department for Business, Innovation and Skills, and industry to investigate options.

When assessing the creditworthiness of small businesses with a view to making a loan an important source of information for the lender is a business’ past financial performance. This information is, however, often held by the bank that provides the business’ current account and is not widely shared. Challenger banks and alternative finance providers therefore do not have access to the same level of information as the bank with which the small business already has a relationship.

The problem of a lack of available credit data has been highlighted by a range of informed comment on SME access to finance. The Office of Fair Trading, the Competition Commission and the ‘Boosting Finance Options For Business’ Review, headed by Tim Breedon, have all highlighted a lack of information about the creditworthiness of SMEs as a potential barrier to competition in the SME banking market and SME lending in particular.

Following the statement at Budget 2013, the government announced at the Autumn Statement that it would consult on proposals to require banks to share information on their SME customers with other lenders through Credit Reference Agencies (CRA). The government then intends to legislate in the next session of Parliament. The proposals are intended to improve the ability of challenger banks and alternative finance providers to conduct accurate SME credit scoring and, by levelling the playing field between providers, make it easier for SMEs to seek a loan from a lender other than their bank. A better understanding of the SME sector should also stimulate competition and innovation in SME lending, improving the cost and quality of services offered.

In addition to this, the Bank of England is considering whether the UK should develop a national database of credit information.

The government is also aware that there are other areas in which credit data could be improved. The provision of portfolio level loan data, for example, could help facilitate lending by institutional investors. The government will continue to consider these matters as part of its work on access to finance.

3. Increasing access to SME credit data

3.1 Why is there a need to increase access to credit data on Small and Medium Size Enterprises (SMEs)?

The control of credit information by existing providers is a barrier to entry in the market for lending to small and medium sized businesses. Lack of access to this data limits the ability of challenger banks and alternative finance providers to accurately assess credit risk both in absolute terms and relative to those lenders that hold the relevant information. Opening up access to credit data on SME borrowers would increase:

- the reliability of credit scores obtained from the Credit Reference Agencies (CRAs)
- the information available to challenger banks and alternative finance providers to allow them to reach their own informed decisions about an SMEs creditworthiness

The ability to assess credit risk more accurately would enable challenger banks and alternative finance providers to make more informed decisions on potential customers and will therefore help level the playing field. This would help to deliver the government's objective of stimulating competition in SME lending, building on the steps the government has already taken to promote competition in the UK banking market.

Access to better credit data was identified in the Office of Fair Trading (OFT) 'Review of barriers to entry, expansion and exit in retail banking' (2010). The OFT noted that,

Accurate information about a customer's financial situation is a crucial component enabling providers to offer retail banking products, such as credit, to customers effectively. In the absence of accurate information about potential customers' risk profiles, providers may be forced to use less reliable information, resulting in credit being over or under provided. One consequence of this might be providers ceasing to offer certain products for customers for whom they cannot accurately calculate risk. Thus, a lack of accurate information can potentially become a barrier to entry in certain product markets or consumer segments.

At the time of the OFT review, commercial platforms for the sharing of this data were in their infancy. The OFT noted their potential to make this data more widely available.

The OFT findings built on those of the Competition Commission that while financial information about larger SMEs was available from CRAs or from company accounts for corporate SMEs, such information was not as readily available for smaller SMEs that did not file accounts. As this information was only available to incumbent banks (in particular from the data that the SME's current account gives a bank on income, expenditure, and wider product holdings) the Competition Commission concluded that newer entrants such as challenger banks and alternative finance providers were at a competitive disadvantage as they could not price their products appropriately or market their services in a targeted way.

Access to current account data also allows lenders to mitigate credit risk by monitoring the ongoing creditworthiness of the borrower over the lifetime of the loan. This can result in the incumbent bank being able to offer preferential rates compared to other lenders. This creates a barrier to switching suppliers of SME banking services and helps to maintain the existing high levels of market concentration, a problem highlighted by the Taskforce on 'Boosting Finance Options for Business', headed by Tim Breedon, in 2012. The Taskforce found that,

The provision of credit by investors and intermediaries relies on good credit information on which to assess the risk and required return of lending to a business. The lack of easily available credit information can raise the costs of credit provision, as investors are required to undertake additional credit assessment. Further, credit information can present a barrier to entry for new providers if existing providers control access to credit information.

The Taskforce made the following observations:

- credit information presents a barrier to entry for new providers if existing providers control access to credit information
- a number of finance providers raised the issue that a lack of access to credit information represents a barrier to entry for them in lending to SMEs. This was also raised by the Independent Commission on Banking in its report to government
- Credit Reference Agencies (CRAs) can make risk assessment more efficient and improve overall outcomes for businesses. Commercial data sharing had the potential to foster greater competition between banks and other finance providers
- the scope of data sharing could be broadened to include non-bank finance institutions in order to support a more diverse financing landscape
- the government also has a role to play through the disclosure of data that sits within public bodies

The Taskforce recommended that the British Bankers' Association (BBA) should explore greater credit data sharing with non-bank providers and that the government should consider whether further data could be made available to support the development of new finance products and markets to benefit businesses.*

A recent report by Ares and Co for CityUK supports these findings. This report finds that alternative finance providers do not have access to the same amount of credit information on SMEs as do the big banks. It concludes that there will not be successful growth of alternative finance providers until this problem is resolved.

The Royal Bank of Scotland (RBS) Independent Lending Review, undertaken by Sir Andrew Large, identified a need to increase the information on SME lending available to the financial services industry to allow banks and new entrants to make more informed lending decisions. Further evidence is presented in a recent Demos report by Andrew Freeman ("Challenging myths about funding of small businesses"). The Demos report recommended the creation of a central database that would be a "a utility created to provide lenders with information about would-be borrowers and monitoring services for existing borrowers".

*The government has already taken steps to increase the availability of public data for use in SME credit scoring. In July HM Revenue and Customs (HMRC) published a consultation on a number of proposals for potential uses of public tax data. This included sharing detailed (but non-financial) VAT registration data on a restricted basis for specific purposes, such as credit referencing. The consultation noted that controlled release of this data 'could have…an impact on economic growth by materially increased access to credit, especially for non-incorporated SMEs, as a result of improved credit scoring'.

3.2 The current system

In the UK, the provision of credit information has evolved around Credit Reference Agencies (CRAs). CRAs are privately owned enterprises that collect a wide range of financial and non-financial data from a variety of sources to support credit approval. Financial information is combined with relevant non-financial information, such as county court judgements, to build a more complete picture of a borrower's creditworthiness. CRAs play a key role in providing credit risk information to inform lending decisions and banks and non-bank lenders all use CRAs as part of their credit risk assessment process.

The Business Information Providers Association (BIPA) comprises the five principal commercial CRAs in the UK – Creditsafe Business Solutions Ltd, Dun & Bradstreet, Equifax, Experian and Graydon. There are also consumer focused CRAs such as Call Credit. The sharing of data about consumers, small businesses and their credit performance is not mandated by law or regulation. All creditors who share credit data do so on a voluntary and commercial basis and in accordance with their legal obligations towards data protection.

Under the current system, finance providers that have a contractual relationship with a CRA can purchase data on payments and missed payments on existing credit facilities of small businesses. They can also purchase aggregate risk scores showing the business's likely propensity to repay or miss repayments, as well as any warning flags of debt management plans that the business owner might have. In summary, CRAs therefore offer business data (such as turnover, region, sector), owner/director data (such as credit history) and default history. Finance providers can purchase a score from a CRA that incorporates this information, or purchase the underlying data.

Important data is not, however, always shared with CRAs. Positive payment performance data is not always shared, for example, and it is not always possible to understand the total debt exposure levels of an SME. In addition, current account data is only shared to a limited degree and via ‘closed users groups’ of the CRAs of which a finance provider has to be a member and which operate on the principle of reciprocity (more detail below). Through these closed user groups, current account providers can share information such as balance type; credit turnover; primary account turnover; and rejection flags (indicators of missed payments). Stakeholders have noted that the sharing of SME current account performance data, even within closed user groups, is in its infancy. This affects the accuracy of credit scores offered by the CRAs.

To be able to compete effectively, challenger banks and alternative finance providers need access to more than credit scores. In order to not be reliant on the modelling and judgement of the CRA they want access to the underlying data. At present the sharing of this data is governed by the ‘principle of reciprocity’; a set of guidelines overseen by the Steering Committee of Reciprocity (‘SCOR’). SCOR is a cross industry forum made up of representatives from credit industry trade associations, credit industry bodies and CRAs. The intention of these guidelines is to ensure that all companies that use and/or subscribe to shared data do so on a reciprocal basis so that ‘“subscribers receive the same credit performance level data that they contribute, and should contribute all such data available”.

In theory these rules allow for scenarios where a creditor is not able (rather than not willing) to provide like-for-like data, for instance because a creditor does not offer a product type (e.g. a business current account) or is new to the market and has not yet been able to generate data to share. For example, if a challenger bank only offers loans and is willing to provide credit data on its loan book, then it should be able to access a reciprocal level of data from the CRAs about other products such as current accounts shared through a closed user group. In practice, however, they can at present only see proxy indicators, ‘warning flags’ showing whether declared income matches that available from current account turnover data, whether that data suggests the customer is over indebted and whether the customer may struggle to repay credit. Challenger banks and alternative finance providers cannot see the underlying data itself.

In their current form the guidelines on reciprocity do not therefore provide a level playing field. Institutions that do not offer business current accounts, for example, are not able to access the same level of data on current accounts that is available through CRAs to those that do offer such accounts. This puts newer lenders that do not offer business current accounts at a disadvantage in taking well-informed credit decisions and in monitoring the ongoing creditworthiness of an SME once a loan has been made. Credit may, as a result, be over or under provided.

3.3 Options for improving access to SME credit data

The government believes it is important to take action to address the problems with the current system and to open up access to credit information so as to make it easier for challenger banks and alternative finance providers to lend to SMEs. The government intends to introduce legislation in the next session of Parliament to tackle this issue. The rest of this consultation focuses on the policy decisions that will need to be made in order to shape the legislation. In particular decisions will need to be taken about:

- what information should be shared
- how information should be shared with the CRAs
- who will be able to get access to this information from the CRAs

What information should be shared?

The major banks possess a large repository of information on the creditworthiness of SMEs by virtue of their ability to access current account performance data and their market share of SME banking services. This represents a significant structural information asymmetry limiting the ability of challenger banks and alternative finance providers to compete to offer SME banking products. The government is committed to tackling this information asymmetry, in order to:

- increase the reliability of credit scores obtained from the CRAs
- open up access to the underlying credit information on which these scores are based

This will stimulate competition in SME lending by helping challenger banks and alternative finance providers accurately assess credit risk.

In order to stimulate competition in this way, more credit information needs to be shared by the existing holders of that information with the CRAs. In stipulating what information the government wants to be shared, the government also intends to deal with privacy concerns by ensuring that such information should continue to be shared only where the SME has given permission for this to happen.

Question 1	Currently any individual or business has to give its consent for its data to be shared with CRAs. Do you agree that it is important that legislation mandates that data can only be shared where an SME gives its permission?

SME current account data is the most valuable source of data in assessing the creditworthiness of an SME. At present only a limited amount of current account data (certain high level indicators) is shared with CRAs through closed user groups. The government intends to make the sharing of this data mandatory. In addition, the government is of the view that there is a case for mandating the sharing of more detailed current account data so as to improve the quality of the data on which the CRAs are able to base their credit scores. At the most granular level this could be turnover data showing payments in and out of a business's current account.

Business current account information is not the only information that is useful in assessing credit risk. Currently the major banks share some wider data on their SME customers with the CRAs (for example data on existing credit facilities where that SME is making or missing payments on an outstanding loan). The government understands that this data is more widely shared than that on current accounts. However, given the value that this data also has as a means of assessing creditworthiness the government may wish to make the sharing of such additional data mandatory. If the government were to take such action it would want to consider whether the requirement to share data should apply to all providers of SME credit or whether there should be a market share threshold below which a credit provider is exempt from sharing this information. Any market share threshold would be designed so as not to impose any unnecessary burdens on smaller SME lenders.

In addition, market participants have indicated that other performance related data, not shared with lenders, could add significant value in assessing creditworthiness. For example, CRAs currently receive some payment performance information on SMEs from other SMEs based on their accounts receivable ledgers. This information is only available to SME subscribers to CRA data, not financial providers, since financial providers are unable to submit this information themselves.

Question 2:	Do you agree that the sharing of key indicators of current account performance data should be mandatory?
Question 3	Do you also agree that more granular current account data should be shared? If the answer to this is 'yes', do you think this should be as granular as turnover data showing payments in and out of an SMEs account?
Question 4	In addition to taking action on the sharing of business current account data, do you think there is a case for taking action to ensure that all providers of credit share wider credit data on their SME customers with the CRAs? If so can you explain why?
Question 5	If action is taken on the sharing of wider credit data, does there need to be a market share threshold below which a credit provider is exempt from sharing this information? If the answer to this is 'yes', at what level should this be set?
Question 6	Would it also be helpful to mandate that non-financial information currently shared between SMEs through CRAs must be shared with finance providers?

How should information be shared with the Credit Reference Agencies?

The government understands that at present banks share credit data with one or more CRAs. In legislating to increase the amount of credit data that is shared with the CRAs, a decision needs to be taken about whether the data needs to be shared with all of the CRAs or would it be enough for the data to continue to be shared with one or more of the CRAs. There could, of course, be implications for competition within the CRA industry, or for new entrants, if mandatory information was shared with a limited number of CRAs.

It will also be necessary to consider how frequently the data should be shared. Should it be shared monthly, which is likely to mean the information is more up to date but would impose a heavier burden on those sharing the information, or does it need to be shared more or less frequently than this? And what time frame should the data that is shared cover? Is data going back 3 months sufficient or does it need to cover a longer period of time?

In considering the answers to all of these questions the government is interested in the best way of improving the reliability of credit scores given by the CRAs and increasing access to the underlying data on which these credit scores are based.

Question 7	Do you think that credit providers should share data with all of the CRAs or do you think it is enough for the data to be shared with one or more of the CRAs? If your answer is to limit this to one or more CRA, should that CRA be required to share that information with other CRAs?
Question 8	How frequently do you think credit data should be shared?
Question 9	What time frame do you think the shared credit data needs to cover? Is data that goes back three months sufficient?

Who will be able to get access to this information from the Credit Reference Agencies?

Increasing the supply of SME credit data to the CRAs will help to improve the accuracy of the credit assessments made by the CRAs. This will help to stimulate competition in SME lending by making it easier for challenger banks and alternative finance providers to make use of the credit scores from the CRAs as an accurate way of assessing the creditworthiness of an SME.

The government proposes that all of the data on SME credit that is shared with the CRAs, particularly in the areas of business current accounts, would be accessible to all providers of SME credit. This would remove a substantial barrier to entry in the market for SME lending and do the most to stimulate competition by helping challenger banks and alternative finance providers looking to lend to SMEs.

Question 10	Do you agree that all of the data that is shared with the CRAs should be made available to all providers of SME credit?
Question 11	Do you think that only SME credit providers should be able to access this data?

There is also a decision to take about when providers of SME credit would be able to access such data. The government proposes that SME credit data should be made available to providers of SME credit where the SME has approached a provider seeking finance and the SME has given that provider permission to access this information.

Question 12	Do you agree that credit providers should only be able to access this data where the SME has approached it seeking finance and the SME has given that provider permission to access this information? If not, when do you think that credit providers should be able to access this data?

3.4 Other Action – The Bank of England's work on a national credit register

Separately to the proposals outlined in this consultation, the Bank of England has been considering whether the UK should develop a national database of credit information. Its Financial Policy Committee made clear its intention to review the benefits of such an action in its Financial Stability Report, published 28 November 2013. The RBS Independent Lending Review, led by Sir Andrew Large and published on 1 November noted the lack of a central repository of information about SMEs' creditworthiness as a shortcoming and identified the creation of a credit database for SMEs as a possible solution. A number of other European countries operate such a central credit register, but the UK currently does not.

In the short-term, a credit register that improved the availability to lenders of SME credit information could make it easier for SMEs to access credit. This is particularly true for the smallest firms, about which the lack of credit information is the most acute. The longer-term benefits of a credit register, while less certain, might be even more transformative. The greater availability of information established by a credit register might, for example, support the emergence of new lenders with business models that make greater use of borrower information and rely less heavily on collateral. A credit register could also deliver benefits to the securitisation of SME loans by making a large statistical dataset on the performance of this asset class available to investors.

The RBS Independent Lending Review also identified a need to increase the information on SME lending available to public authorities, the financial services industry and SMEs themselves. In the short-term, the mandatory sharing of CRA data on the corporate sector with public authorities could be beneficial in terms of providing information to those authorities. In the long-term, establishing a national credit register would achieve the goal more fully, leading to a more informed public debate about the state of SME finance. In addition, it might enable the Bank of England to improve its assessment of the impact of its monetary and macro-prudential policy on the availability of credit and bank risk taking. Access to comparable, timely credit data across banks would also assist the Bank in its objective to carry out regular stress tests of the UK banking system.

There would be many choices to make with respect to the details of such a credit register, including the breadth of data contained in it, the institutions that could access the data, the operating model of the credit register and its interaction with existing databases, both public and private. These choices would affect potential benefits and costs. Assessing the costs and benefits of this initiative would of course also need to reflect the benefits delivered by other initiatives such as those set out within this document.

4. List of questions

Question 1	Currently any individual or business has to give its consent for its data to be shared with CRAs. Do you agree that it is important that legislation mandates that data can only be shared where an SME gives its

	permission?
Question 2	Do you agree that the sharing of key indicators of current account performance data should be mandatory?
Question 3	Do you also agree that more granular current account data should be shared? If the answer to this is ‘yes’, do you think this should be as granular as turnover data showing payments in and out of an SMEs account?
Question 4	In addition to taking action on the sharing of business current account data, do you think there is a case for taking action to ensure that all providers of credit share wider credit data on their SME customers with the CRAs? If so can you explain why?
Question 5	If action is taken on the sharing of wider credit data, does there need to be a market share threshold below which a credit provider is exempt from sharing this information? If the answer to this is ‘yes’, at what level should this be set?
Question 6	Would it also be helpful to mandate that non-financial information currently shared between SMEs through CRAs must be shared with finance providers?
Question 7	Do you think that credit providers should share data with all of the CRAs or do you think it is enough for the data to be shared with one or more of the CRAs? If your answer is to limit this to one or more CRA, should that CRA be required to share that information with other CRAs?
Question 8	How frequently do you think credit data should be shared?
Question 9	What time frame do you think the shared credit data needs to cover? Is data that goes back three months sufficient?
Question 10	Do you agree that all of the data that is shared with the CRAs should be made available to all providers of SME credit?
Question 11	Do you think that only SME credit providers should be able to access this data?
Question 12	Do you agree that credit providers should only be able to access this data where the SME has approached it seeking finance and the SME has given that provider permission to access this information? If not, when do you think that credit providers should be able to access this data?